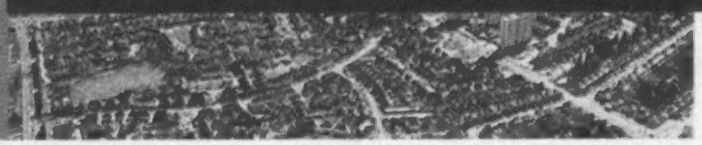
HOUSING MARKET OUTLOOK

Halifax CMA



Canada Mortgage and Housing Corporation

Date Released: Fall 2007

Residential Construction Levels Supported by Multiples Activity

Residential construction in Halifax will continue on its recent path in the foreseeable future. Single-detached home construction will remain subdued while multiple unit projects will support the overall level of starts activity.

In 2007, total housing starts will rise slightly above the 2006 level with approximately 2,525 starts. This number is comprised of virtually flat single starts activity and a very small increase in multiples.

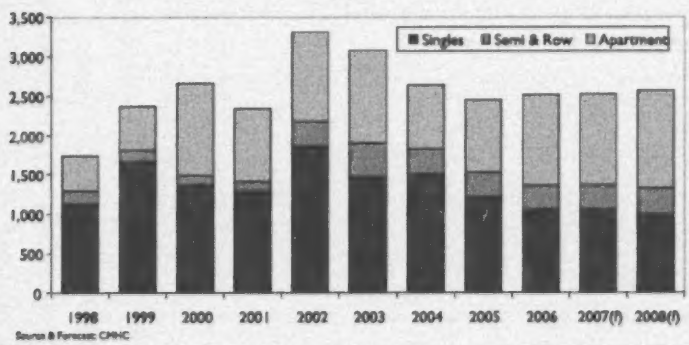
The same trend will continue in 2008, but will be more pronounced. Total starts will climb one per cent due to anticipated strength in multiples. Single starts will decline by five per cent while multiples, driven by apartment-style units, will rise by nearly seven per cent.

The approximately 1,050 and 1,000 single starts expected in 2007 and 2008 respectively, will represent the lowest levels of production in 16 years (since 1991). Conversely,

Figure 1

Multiples Support Housing Starts

Annual housing starts by type of structure, Halifax CMA



Source & Forecast: CMHC

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construction activity for multiples is expected to rise to 1,550 starts in 2008 representing the highest level of multiple starts in 16 years.

The ongoing pattern of declining single starts and rising multiple starts has resulted in a dramatic shift in the composition of the market. In 1998, single starts accounted for over 60 per cent of the total annual starts activity. In 2008, singles starts will represent less than 40 per cent of the total annual starts. This is a shift from three single starts for every two multiple starts to three multiple starts for every two singles.

Various factors are contributing to these shifting market conditions. Rising land, development and labour costs have been driving up average new home prices. The average price of a new single-detached home in Halifax has risen by over 10 per cent annually since 2003. Average price growth is expected to peak in 2007 at 13 per cent and to decelerate in 2008 with growth more in line with inflation at approximately 2.4 per cent.

Also contributing to the rapidly rising average prices are consumer preferences. New home buyers, faced with rising costs for land and development, choose to add additional value to their investments by maximizing the value of the house itself. The result is a general drift upwards across the market. Not only is the cost and price of homes increasing, the mix of homes is shifting as well. Larger and hence more expensive homes tend to dominate new home construction in Halifax. The combination of these effects will result in average new single-detached home prices in excess of $340,000 over the course of the next year. Rising costs and prices overall have contributed to the recent declines in single starts and will continue to influence the market in the near to medium term.

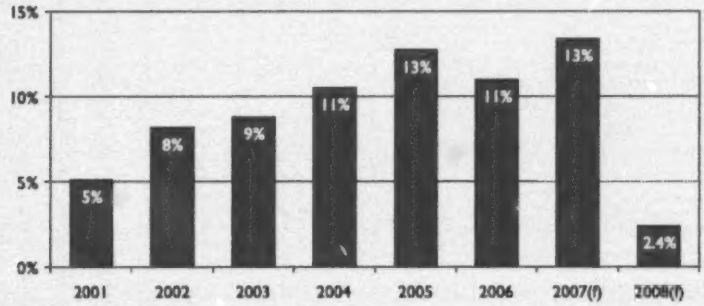
The shift towards multiples also reflects several factors at play. The deterrent created from rising costs actually makes multi-residential projects more desirable. Builders are able to create economies of scale in large-scale multiple projects and multi-residential living often requires lower monthly payments than single-detached living.

Apart from costs, there also are demographic trends affecting the demand for multiples. The fastest growing household types are single-person and couples-without-children. With less need for space and possibly a greater need for cost effectiveness, smaller households have a greater tendency to choose apartment-style living. The lifestyle choices associated with smaller households also may make apartment-style living more attractive (e.g., less maintenance, added security and closer proximity to entertainment).

Figure 2

Recent Rapid Price Growth to Decelerate

Annual average sale price, new single-detached - Halifax CMA



Source & Forecast: CMHC

Record Pace of Sales will Moderate

Sales of existing homes will reach an all-time high in 2007 of approximately 6,850 MLS® sales. This will represent growth of about 10 per cent compared to 2006 and the previous record set in 2005 will be exceeded by over five per cent. Sales are expected to moderate in 2008, but still will reach the previous record set in 2005 of 6,500 (a five per cent decline from 2007).

Several factors contributed to a decrease in MLS® sales in 2006. Historically low interest rates began to nudge upwards; homeownership costs continued to rise including property taxes, heating and electricity costs; employment growth had stalled; and migration patterns became less favorable.

In 2007, however, other factors have come into play that will influence the existing home market over the next couple of years. While homeownership costs have been rising, new home construction prices have been rising more quickly and have encouraged a shift towards existing homes. A tight labour mar-

Figure 3

ket and rising employment levels have led to significant wage growth and higher levels of consumer confidence. With more disposable income and confidence in the economy, Haligonians are well-positioned to make home purchases.

At the time of publication, the number of active MLS® listings in Metro Halifax was just below 3,000. The high level of sales kept the active listings number fairly low throughout 2007 allowing it to peak at only 3,341. At this level there has been on average just over five months of inventory of existing homes in 2007.

In 2007, the average selling price of an existing home will grow by seven per cent compared to 2006. The average price will reach approximately $215,000 in 2007 and will grow another four per cent in 2008 to approximately $223,000. These rates of growth are somewhat slower than the previous five-year average growth of nearly nine per cent.

Inventory levels are expected to remain tight over the next year which will result in continued price growth at rates in excess of inflation. The effect of tighter inventory levels on price will result in some softening in the level of sales as well as some spill-over into the new home market. If an existing home cannot be found to suit, a buyer may opt for new construction. In lieu of opting for new construction, renovating will remain a popular option in Halifax.

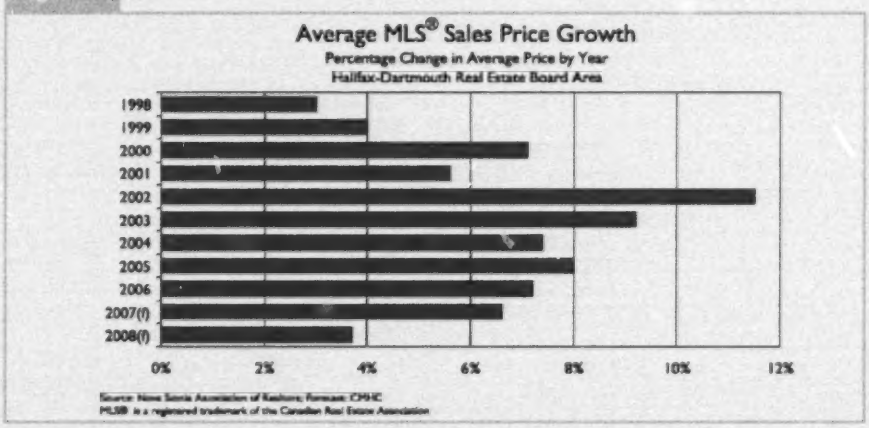
The existing inventory continues to provide a variety of housing options. Current listings are almost evenly split among three price ranges. Almost one-third of active listings are in each of the following three price ranges: below $200,000; between $200,000 and $300,000; and over $300,000.

Demand for Rental Units Expected to Continue

Heading into the fourth quarter of 2007, rental starts continue to be strong, although down slightly from the record setting year of 2006. Increased supply in the Halifax rental stock due to recent starts activity and the lure of homeownership, will contribute to a slight increase in the Halifax vacancy rate. Demand for rental units is expected to continue into 2008 as renting continues to be an attractive option for many due to the rising costs of new and existing homes.

Given the large number of rental starts over the past couple of years, the number of completions will outpace the number of starts based on an 18-24 month development timeframe. Thus far in 2007, the number of completions is lower considering the number of starts in 2006. This means that 2008 will prove to be a busy year for completions, possibly adding as much as 1,000 units to the Halifax rental stock. The rising stock will exert

Figure 4



some upward pressure on the vacancy rate in Metro. The forecasted vacancy rate for 2007 will rise to 3.6 per cent as compared to 3.2 per cent in 2006. It is expected to rise again to 3.9 per cent in 2008.

In addition to the rising costs of homeownership, some of the factors fueling demand for rental units are the changing demographics within Halifax and a strong economy. The recent census data indicates household formation across Canada, including Halifax, is changing. The baby boomer demographic, along with their adult children who are leaving the nest to look for housing, continues to have a strong influence on the overall housing market. In addition to this, the traditional nuclear family is on the decline, and for the first time, the number of unmarried people outnumbers the number of married people. This is leading to an increase in one person households in Halifax and will influence demand for rental units.

In 2007, the average rent for a two-bedroom apartment in Halifax will average approximately $820, which is a 2.6 per cent increase over 2006. Average rent for a two-bedroom apartment is expected to rise by another 2.5 per cent in 2008 to $840. Rents in new and higher end buildings continue to rise at a faster pace, however, with the vacancy rate inching upward, overall rent increases will be kept to a minimum as landlords look to attract new tenants and retain the ones they have, despite the urge to increase rents due to rising costs.

Given the continued demand for rental units, it is expected that most of the newly completed buildings in 2008 will have little problem finding tenants, provided proposed rents are within the range of the current market.

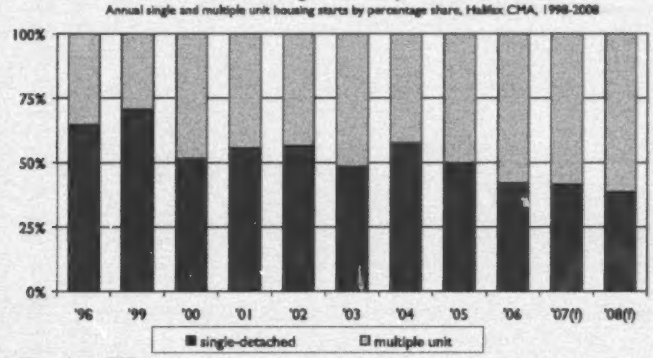
Economic Factors Supportive of Housing Demand

Employment growth, wage growth, low inflation and low interest rates are all contributing to rising consumer confidence levels and a strong sense of being better off now than six months ago. The combination of these factors will continue to have a significant impact on housing demand.

Figure 5

Continued Shift in Single vs Multiple Share of Market

Annual single and multiple unit housing starts by percentage share, Halifax CMA, 1998-2008



Source & Forecast: CMHC

The Halifax economy is benefiting from a wide-range of projects from a variety of businesses. As can be seen in some of the employment growth figures, several financial services companies have announced plans and have begun setting up offices in Halifax. Research in Motion is expected to add a team of up to 1,200 employees. The construction on RIM's new technical support centre in Bedford is well underway. Various retail projects across Metro have provided a recent boost in construction demand. Many now are in the completion stage and will provide employment for hundreds. In the medium term, Halifax also will benefit from some spin-off effects related to some large-scale projects just outside of Halifax in the energy and shipping industries that could potentially begin in the next year or so. These are just a few of many examples adding strength to the Halifax economy.

The demand for labour arising from these and other projects has kept the unemployment rate around five per cent and has contributed to solid employment growth. It is expected that 3,000 jobs will be added in both 2007 and 2008 resulting in approximately 1.5 per cent employment growth each year.

In spite of the strong Canadian dollar, the manufacturing sector has not only held its own, it has risen to its highest levels of employment in the past few years. This combined with strength in other sectors has contributed to significant labour demands resulting in tighter labour market conditions and rising wages. Average weekly earnings have increased five per cent in 2007 resulting in higher levels of take-home pay

and disposable income. Rising wages and increased employment opportunities have had a significant impact on overall consumer confidence.

The recent census data indicates that single-person households and couples-without-children are the two fastest growing forms of households. Smaller households mean more households even without any population growth. Combine this propensity towards smaller households with rising wages and employment opportunities and the overall demand for housing will grow.

These positive economic factors will combine to support housing demand in Halifax in the near to medium-term.

Mortgage Interest Rates

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

Forecast Summary
Halifax CMA
Fall 2007

	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	6,371	6,496	6,228	6,850	10.0	6,500	-5.1
MLS® New Listings	8,973	10,480	10,701	10,400	-2.8	10,500	1.0
MLS® Average Price ($)	173,922	188,115	201,734	215,000	6.6	223,000	3.7
New Home Market							
Starts:							
Single-Detached	1,510	1,216	1,056	1,050	-0.6	1,000	-4.8
Multiples	1,117	1,235	1,455	1,475	1.4	1,550	5.1
Semi-Detached	142	146	154	175	13.6	175	0.0
Row/Townhouse	166	169	154	150	-2.6	150	0.0
Apartments	809	920	1,147	1,150	0.3	1,225	6.5
Starts - Total	2,627	2,451	2,511	2,525	0.6	2,550	1.0
Average Price ($):							
Single-Detached	233,914	263,663	292,665	332,000	13.4	340,000	2.4
Median Price ($):							
Single-Detached	209,900	235,900	267,000	305,000	14.2	312,000	2.3
New Housing Price Index (% chg.)	2.0	2.8	4.3	4.0	-	3.5	-
Rental Market							
October Vacancy Rate (%)	2.9	3.3	3.2	3.6	0.4	3.9	0.3
Two-bedroom Average Rent (October) ($)	747	762	799	820	2.6	840	2.4
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	0.56	7.19	0.33
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	0.57	7.41	0.39
Annual Employment Level	202,300	202,500	204,800	208,000	1.6	211,000	1.4
Employment Growth (%)	3.5	0.1	1.1	1.6	0.5	1.4	-0.2
Unemployment rate (%)	6.0	5.8	5.0	5.2	-	5.0	-
Net Migration	899	-179	326	1,200 **		900	-25.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of Realtors, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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